

Chapter 4

Fiscal Requirements

4.1 GENERAL

This chapter describes the applicant agency's fiscal responsibilities and requirements related to project accounting and property records for OTS projects. Specific requirements for project accounting records, equipment management and disposition, record retention, and audits are detailed in subsequent sections of this chapter. In general, it is the applicant agency's responsibility to ensure that project costs are:

- Recorded in the agency's accounting system in a separate project account
- Incurred in accordance with agency's standard procurement policies and procedures
- Supported by detailed source documents that reliably account for funds expended
- Allowable and in accordance with authorized costs defined in the project agreement

Note: All project transactions are subject to audit. Failure to comply with the provisions of this chapter or any portion of the Grant Program Manual, Volume II, will result in audit exceptions and subsequent loss of funds.

4.2 INTERNAL CONTROL

Effective control and accountability must be maintained for all OTS grant and sub-grant cash, real and personal property, and other assets. Applicant agencies are responsible for ensuring that all such property is adequately safeguarded and used solely for authorized purposes.

4.3 ACCOUNTING RECORDS

Any system of accounting may be used as long as it conforms to generally accepted accounting principles. In general, this means the existing accounting system of an applicant agency may be used as long as:

- Records contain project information to include total project amount authorized, obligations, outlays or expenditures, unobligated balances, and income
- Project revenues and expenditures including labor are recorded in special project accounts
- Project expenditures can be clearly identified with authorized budgeted costs

Note: Separate project records should include an itemized list of expenditures for each billing period to facilitate audits of project expenditures and preparation of reimbursement claims.

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4.4 ADEQUATE SOURCE DOCUMENTATION

As mentioned in Chapter 2.3, in order for costs to be eligible for reimbursement, they must be adequately documented. This section provides the criteria for source documentation to be considered sufficient for each cost category.

4.4.1 Personnel Costs

Personnel costs must be based on documented payrolls and approved by a responsible official of the agency. In addition, the distribution of costs to OTS grants must be supported by personnel activity reports for all professional and nonprofessional staff billed. For each employee, these reports must be prepared at least monthly and coincide with one or more pay periods. At a minimum they must contain:

- An after-the-fact determination of actual activities worked
- All activities they were compensated for whether grant related or not
- Signatures of employee and an official with first-hand knowledge of activities

Note: Governmental entities may submit advance written requests to OTS for exemption from this requirement if they are using another federally accepted method of support.

4.4.2 Travel Expenses

Travel expenses must be supported by promptly prepared employee expense reimbursement claims and include appropriate itemized receipts. Conference and seminar expenses must also be supported by event agendas. If costs are billed for the use of agency-owned vehicles, records must be maintained indicating who used the vehicle, when, for what purpose, and for how many miles. The agency's cost records must show how the mileage rate or other billing rates were developed.

4.4.3 Contractual Services

Services provided by an individual, organization, firm, or agency, must be supported by a properly executed contractual or interagency agreement. Payments on contractual agreements must be supported by itemized invoices and made in accordance with the terms of the agreement. Agencies must also maintain records sufficient to detail the significant history of the procurement.

Note: See Chapter 6 for detailed information regarding OTS requirements for procurement and administration of reimbursable contractual services.

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4.4.4 Equipment

Equipment is non-expendable, tangible personal property with a useful life of more than one year and an acquisition cost of more than \$5,000. The total cost of equipment includes modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for project purposes including tax, shipping, and installation, excluding any discounts. Equipment purchases must be supported by purchase orders or other original documents authorizing procurement, signed by appropriate authorities. In addition, itemized invoices or properly signed and dated itemized delivery and/or packing slips must be on file.

Note: At the time of purchase, equipment must be reported to OTS using the OTS-25 Equipment Reporting Form (see EXHIBIT 4-A). OTS utilizes this form to maintain accountability of equipment acquired for its projects. This form should not replace the applicant agency's regular property control records.

4.4.5 Other Direct Costs

The purchase of any other project supplies, materials, or minor equipment (less than \$5,000) or the procurement of services not requiring contractual agreements must be supported by purchase orders or other original documents authorizing procurement, signed by the appropriate authorities. In addition, itemized invoices or properly signed and dated itemized delivery and/or packing slips must be on file. Rental or lease costs must be supported by appropriate detailed agreements.

4.4.6 Indirect Costs

Indirect costs must be supported by a cost allocation plan or an indirect cost rate proposal. Source documentation must be available to support the rate authorized by OTS for reimbursement.

4.5 EQUIPMENT MANAGEMENT REQUIREMENTS

If equipment is purchased using OTS funds, applicant agencies will be accountable to OTS for the equipment as long as the current fair market value remains in excess of \$5,000. Applicant agency procedures for managing project equipment (including replacement equipment) acquired in whole or in part using OTS funds, until disposition takes place, must at a minimum include:

- Adequate controls for safeguarding against loss, damage, or theft of equipment
- Provisions for replacing equipment lost due to circumstances other than normal wear
- Maintenance procedures that will keep equipment in good working condition

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- Properly maintained property records with the following information:
 - Description with serial or other identification number
 - Acquisition date and total cost
 - Source of property and who holds title
 - Location, condition, and use of property
 - Percentage of federal participation in cost
 - Ultimate disposition data including date of disposal and sale price

Note: Physical inventory and reconciliation to property records is required to be performed every two years.

4.6 OTS RECORDS AND REPORTING REQUIREMENTS

Property records for project equipment, which are subject to audit by OTS, shall also be made available in the project file and retained for three years after final disposition of the property or for three years after final project payment is made, whichever is later.

Equipment Certification (EXHIBIT 4-B) is to be sent to OTS every two years starting from the date of acquisition, that includes identification of equipment, current fair market value, current location and use, and anticipated further need. Applicant agency must contact OTS:

- Immediately after discovery of any project equipment loss
- To obtain approval before selling, transferring, or conveying project equipment

4.7 EQUIPMENT DISPOSITION

At the end of a project, which includes any equipment purchase, the applicant agency must submit an updated OTS-25, Equipment Report (EXHIBIT 4-A), with their final claim that indicates final disposition using the following criteria:

- Items with a current per-unit fair market value reported to OTS of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to OTS.
- Items with a current per-unit fair market value of more than \$5,000 may be retained if it will be used for, and there is a continued need to accomplish, the purpose of the original project or it can be used in connection with any other OTS or federally sponsored activities.

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- Items with a current per-unit fair market value in excess of \$5,000 that can no longer be used in connection with any OTS or other federally sponsored activities – Contact OTS and the following options will be discussed:
 - Property may be retained, or sold, and an amount equal to the current fair market value, or proceeds from sale, multiplied by the percentage of OTS funds used in original purchase will be refunded to OTS.
 - Property may be returned to OTS for program use by other OTS funded agencies.

Note: If the disposition report reflects a current fair market value of \$5,000 or more and the applicant agency has indicated a continued need for the property, OTS will require a yearly certification, EXHIBIT 4-B, until the property value is less than \$5,000 or a request has been made to otherwise dispose of the property. The estimated useful life for equipment typically funded by OTS is contained in EXHIBIT 4-C.

4.8 COPYRIGHTS/TRADEMARKS

OTS reserves a royalty-free, nonexclusive, and irrevocable license to reproduce, publish or otherwise use, and to authorize others to use, for federal or state government purposes the following:

- The copyright/trademark in any work developed under a grant, sub-grant, or contract under a grant or sub-grant.
- Any rights of copyright/trademark to which a grantee, sub-grantee, or a contractor purchases ownership with grant funds.

4.9 PROGRAM INCOME - RECORDS/REPORTING

Program income must be maintained in a separate account that identifies disposition by documenting that the program income will be used to further the objectives of program area under which it was generated or used to reduce project costs. Any balance remaining in the program income account at the close of fiscal year shall be carried forward.

4.10 RECORDS RETENTION

The applicant agency must retain all project source documents and records and make them available for federal and state audit for a period of three years following the date of the final reimbursement of project expenditures. Records shall be retained beyond this date if audit findings have not been resolved.

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4.11 SINGLE AUDIT REQUIREMENTS

OTS has the responsibility of ensuring that applicant agencies have complied with the requirements of the Single Audit Act in accordance with the Office of Management and Budget (OMB) Circular A-133. The State Controller's Office (SCO) notifies OTS of those cities, counties, and special districts that have not submitted an audit report or exemption certification to SCO for that fiscal year. Applicant agencies that are not in compliance will be notified and required to provide verification of compliance.

Failure for grant recipients to comply with the Single Audit Act requirements could be subjected to sanctions including the following:

- Withholding a percentage of Project award
- Withholding or disallowing overhead cost
- Suspending Project until the audit is conducted, or exemption certification is submitted
- Termination of Project

4.12 OTS AUDIT REVIEWS

Periodic audits of applicant agency, subrecipient, and subcontractor records for projects funded by OTS, are conducted as both on-site and desk reviews to ensure compliance with the provisions of this and any other chapters of the Grant Program Manual, Volume II. Failure to comply with any of these provisions may result in audit exceptions and subsequent loss of funds.